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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
2000 Biennial Regulatory Review --	)	CC Docket No. 00-199
Comprehensive Review of the Accounting	)	
Requirements and ARMIS Reporting	)	
Requirements for Incumbent Local Exchange	)	
Carriers: Phase 2 and Phase 3	)	

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COMMENTS
OF THE
UNITED STATES TELECOM ASSOCIATION

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SUMMARY

The Part 32 accounting and ARMIS reporting requirements are an anachronism in today's competitive environment. Part 32 no longer reflects how incumbent LECs do business. Part 32 books are kept only because the Commission's rules require that they be kept. They serve no business purpose. The ARMIS reports no longer provide information that realistically depicts the competitive telecommunications industry. The incremental changes proposed by the Commission will not make these reports viable and will increase the administrative burden. The Commission should take a serious look at both sets of requirements pursuant to the mandate of Section 11 of the Telecommunications Act and adopt the proposals submitted by USTA. Phase 2 biennial review should include significant reform of these rules as recommended by USTA and the transition to deregulation should be established with firm dates indicating when these rules will be eliminated. USTA recommends that Phase 2 streamlining be implemented in 2001 and that the Commission complete the deregulation of current accounting and reporting requirements by 2005. This should result in the conversion to GAAP and the annual filing of a report like the SEC 10-K.

Increasing the number of accounts in Part 32 or adding columns to the ARMIS reports should not be considered. Such recommendations are not relevant to the Section 11 analysis that is at issue in this proceeding. The suggestions of some state regulators to increase accounts and subaccounts are not justified and are not necessary. Given that these suggestions will result in increased detail, increased regulation, increased administrative burden, and increased costs for all incumbent LECs if adopted, it would seem reasonable to permit carriers to work with their individual state commissions to determine how best to provide whatever information a particular state commission may need that it is not currently receiving. Section 11 does not give the

Commission the authority to adopt new regulations, particularly if there is no Federal purpose and the Commission should not be adopting new Federal regulation to provide states with information that state statutes do not allow.

A summary of USTA's recommendations follows:

-Utilize Class B Accounts for all LECs. The Class A accounts are not required for cost allocation, jurisdictional separations, data reporting, universal service, pricing or complaints. Because LECs do not use Part 32 for business purposes, they must convert software system packages solely for the purpose of capturing and reporting to the Commission information according to Part 32. There is no reason not to adopt Class B accounts for all LECs.

-Eliminate the Subaccounts and Jurisdictional Difference Main Accounts. The subaccounts serve no business purpose and the information in the jurisdictional difference main accounts are already provided to state regulators.

-Reject the twelve new accounts and 21 to 29 new subaccounts suggested by some state regulators as discussed above.

-Use GAAP to perform inventories required under Sections 32.1220(h) and 32.2311(f) since the level of risk is minimal and GAAP provides sufficient guidance.

-Eliminate the thresholds that determine whether LECs can record short-term and small-cost construction projects directly to plant accounts. These arbitrary thresholds serve no purpose.

-Adopt SFAS 116 regarding the recognition of contribution costs.

-Eliminate the requirement to maintain separate subsidiary records for nonregulated revenues.

-Simplify the deferred tax accounting entries. The current level of detail far exceeds GAAP and is extremely burdensome.

-Eliminate the detailed instructions for Telecommunications Plant accounts in Section 32.2000 and replace them with GAAP. The current level of detail is unnecessary and serves no business purpose. This requirement alone costs incumbents up to $9 million a year compared to $2 million spent by unregulated industries.

-Eliminate the requirement for notification and prior approval to adopt FASB standards. There is no need to require a costly revenue requirement study to adopt new FASB standards.

-Clarify that agreements under Section 252(e) are treated the same as tariffed services in Part 64.

-Eliminate the product/service matrix in Section II of the CAM.

-Decrease the threshold to use prevailing price in valuing affiliate transactions from fifty percent to twenty-five percent. Fair market value studies are expensive and time consuming for both the incumbent and the nonregulated affiliates. Such a high threshold is not necessary in a competitive environment.

-Expand the exception to the EFMV rule to include all centralized services regardless of who provides the centralized service to maximize the benefits of shared administrative service efficiencies.

-Eliminate the requirement for fair market value comparisons for asset transfers under \$500,000 and set the threshold at \$ 1 million per year between the LEC and each individual affiliate to be applied separately for sales, separately for purchases and separately by each affiliate.

-Permit incumbents to use less than FDC or at no charge for comparative purposes when the affiliate transactions rules require a comparison with EFMV for booking a transaction when the LEC purchases a product or service from a nonregulated affiliate.

-Exempt nonregulated services sold or assets transferred from the nonregulated operations of the LEC to the nonregulated affiliate from the affiliate transactions rules because the regulated business bears no risk in such situations.

-Allow updates under Section 32.4999(l) for minor nontariffed activities treated as regulated incidental activities by eliminating the criteria that activities have been treated traditionally as regulated.

-Allow LECs to expense up to \$2,000 for all investments.

-Permit all LECs to allocate Part 64 at a Class B level following the methods currently prescribed for midsize LECs.

-Eliminate the requirement to forecast shared network investment in central office and outside plant accounts.

-Consolidate ARMIS reports 43-01, 43-02, 43-03 and 43-04 into one report.

-Eliminate the ARMIS reports 43-07 and 43-08 as these reports are outdated and use the Broadband Competitive Analysis report since it includes information from all providers, not just the LECs.

-Relieve all midsize LECs of all remaining Class A requirements as well as all requirements to file the CAM, conduct CAM audits and file ARMIS. The Commission has already determined that midsize LECs should be subject to reduced regulation based on different needs and circumstances.

-Ensure that if a revenue threshold to define midsize carriers is employed, it is high enough to include all midsize carriers, including those currently subject to Class A requirements, and it is indexed to allow growth without increasing regulation which cannot be justified.

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COMMENTS
OF THE
UNITED STATES TELECOM ASSOCIATION

The United States Telecom Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA is the nation's oldest trade association for the local exchange carrier (LEC) industry. USTA represents more than 1,200 telecommunications companies worldwide that provide a full array of voice, data and video services over wireline and wireless networks. Among USTA's members are those incumbent LECs subject to the Commission's accounting and ARMIS reporting requirements. These requirements subject incumbent LECs to needless regulation.

I. INTRODUCTION AND SUMMARY

In a Notice of Proposed Rulemaking (NPRM) released October 18, 2000, the Commission is proposing a three phase approach to either eliminate or streamline existing accounting and reporting requirements. USTA and its members have provided the Commission with many recommendations to streamline and/or eliminate current accounting and reporting requirements over the years. Recently, USTA submitted an analysis of these requirements and suggested rules changes as part of its 1998 and 2000 biennial review petitions. Until now, the Commission has failed to address the modifications proposed by USTA. As USTA has observed in its filings, significant reform of the accounting and reporting rules has not occurred even as the industry has changed dramatically, as statutory provisions have changed and as traditional forms of regulation have changed. These rules are woefully out of date. The simple fact is that the Part 32 accounting rules no longer reflect how incumbent LECs do business. Part 32 accounting books are kept only because the Commission requires that they be kept. They serve no business purpose. The ARMIS reporting requirements no longer provide information that adequately reflects the competitive telecommunications industry. Adding new columns will not make these reports viable. USTA is pleased that the Commission has finally agreed to seek comment on the proposals set forth by USTA and its member companies.

Regrettably, however, what began as a comprehensive review to be conducted in two phases has now been dragged out to three phases and there are still no definitive plans to eliminate unnecessary and duplicative regulations, purportedly the objective of the comprehensive review. In fact, there are proposals included in the NPRM to increase regulation, including increasing the number of accounts and subaccounts in Part 32 and adding reporting requirements that duplicate data reported elsewhere. Many of these new regulations are suggested by state regulators and do not further the objectives of existing Federal policy. Such proposals do not belong in a proceeding initiated pursuant to Section 11 of the Telecommunications Act that is supposed to identify regulations that no longer serve the public interest and either modify them or eliminate them. While such proposals should not be entertained at all, at the very least, they should be considered in a separate proceeding as they are not relevant to the Section 11 analysis. It is clear from the legislative history that Congress intended the 1996 Act to result in deregulation. It is also clear from the legislative history that Congress expected the Commission to conduct an "attic to basement" review of its rules every two years and to eliminate those rules that no longer make sense. The Commission staff itself recommended that there be substantial reductions in the Commission's accounting requirements in its report for biennial review 2000 released September 19, 2000. The accounting and reporting requirements have not been subjected to the deregulatory review intended by Congress. Significant reform must not be further delayed because of state regulators' claims that they want the Commission to impose more regulation on incumbent LECs. The Commission has no statutory authority to impose federal regulation simply to further state regulatory interests pursuant to Section 11 of the Act and the Commission should not be imposing requirements for the purpose of assisting state regulators in avoiding state statutory limitations on their own authority to impose such requirements.

The Commission itself acknowledges that recent changes in the industry and recent changes in regulatory requirements makes review of these requirements "particularly appropriate". In order for carriers to respond to unregulated competition, they must differentiate themselves in the marketplace. Prescribed, uniform regulations are counterproductive to the competitive market. Companies should be permitted to structure and manage their business in a manner best suited to provide unique products and services, serve existing customers and attract new customers. Significant reform of the existing accounting and reporting requirements should take place in Phase 2 as will be discussed below. In addition, the transition to deregulation should be established in Phase 2 with firm dates indicating when the transition will end. The Commission should start by setting a firm date by which the streamlining proposals recommended by USTA will become effective. USTA recommends that Phase 2 streamlining, as recommended herein, take effect in 2001. The Commission should also establish the date by which deregulation will be completed. USTA recommends that the Commission complete deregulation of the current accounting and reporting rules by 2005. Deregulation of accounting and reporting should result in the conversion to Generally Accepted Accounting Principles (GAAP) and the annual filing of a report, similar to the Form 10K as required by the Securities and Exchange Commission (SEC). The Commission must begin the conversion to GAAP now by streamlining the accounting rules as discussed herein and allowing incumbent LECs sufficient time to make the conversion to GAAP without the distortions or dislocations that could occur if GAAP were to be implemented on a flash cut basis. Incumbents that already utilize GAAP for financial purposes should be permitted to move to GAAP for regulatory purposes on a faster track if desired. The dates must be firm to avoid any possibility that further delay will result or that additional Phases will become necessary.

II. USTA'S ACCOUNTING STREAMLINING PROPOSALS SHOULD BE ADOPTED IN PHASE 2

A. The Commission Should Utilize Class B Accounts for all Carriers

The NPRM includes a broad statement that Part 32 is currently used for various regulatory purposes including cost allocation procedures under Part 64 and jurisdictional separations under Part 36. It is important to understand, however, that Part 32 Class A accounts are not required for either function. In fact, regulators consistently overstate the importance of the existing Part 32 rules. Part 32 is a historical financial accounting system that is no longer used by incumbent LECs to manage business operations. The financial community does not use Part 32 results. As explained by the accounting firm of Arthur Andersen in its analysis of the usefulness of the Part 32 rules:

> Management no longer utilizes USOA [Uniform System of Accounts or Part 32] results to manage the business – in particular the expenses as categorized under Part 32 do not present a clear picture of activities performed to produce a product or service. Thus, companies have designed management information systems that focus on activity based cost information (e.g., salaries and wages, by activity or

service, versus buried cable expenses). The financial community for the most part no longer uses the financial results derived pursuant to Part 32… in many respects the USOA's stability has rendered it obsolete as an accounting system intended to reflect the current results of operations of subject carriers in a consistent and relevant manner.[1]

Part 32 is not used in competitive data reporting. Part 32, itself, does not allocate costs among regulated and competitive operations, among jurisdictions or among services. In fact, Part 32 includes nonregulated costs. The current Part 36 separations rules make reference to Class B accounts, not Class A accounts. Part 64 cost allocation rules need not depend upon Part 32.[2] Both Part 36 separations cost categories and Part 64 regulated/nonregulated cost pools can be created with any Chart of Accounts. The European Union, which adopted similar Part 64 cost allocation rules, does not prescribe standard accounts for telecommunications carriers. Part 32 does not assist in preventing the possibility of anti-competitive behavior and it does not provide information that would be useful in a complaint proceeding because it does not uniquely identify tariff costs. Its purpose is to enable regulators to assess the results of operational and financial events within a specified accounting period. It is solely a regulatory staff tool and its continued use in its present form cannot be justified.

Over the years that USTA has been seeking meaningful accounting relief, USTA has provided many examples of how Part 32 increases the costs of performing internal accounting functions because it requires record-keeping and accounting procedures that are different from SEC requirements. "The additional costs associated with maintaining Part 32 compliance when converting to packaged systems is substantial due to the amount of customization required to enable the new systems to capture and report regulatory information according to Part 32. Typically, mappings must be developed to get from the native accounts of the packaged system

[1] Ex Parte Letter from Mr. Carl R. Geppert, Arthur Andersen, CC Docket No. 98-81, ASD File No. 98-44 and CC Docket No. 98-177, July 15, 1998 at p. 21.

to Part 32 accounts...The ongoing functionality of new systems is often severely diminished due to the level of records and data that must be added in order to comply with Part 32."[3] Companies should be permitted to utilize software packages for recordkeeping without incurring additional costs to modify the package for regulatory purposes or to develop work-arounds or special processes.

Arthur Andersen has analyzed the costs associated with the current Class A accounting and reporting requirements.[4] Its analysis showed that, on average, incumbent LECs could realize average incremental cost savings of approximately $20 million annually with the adoption of GAAP in lieu of the current Class A accounting and reporting requirements. Adoption of Class B accounting and reporting would result in approximately ten percent of those savings. There is no reason to deny incumbent LECs the opportunity to achieve such savings, which could be used for investment purposes, by adopting Class B accounts in Phase II and establishing the transition to GAAP.

In its Biennial Review 2000 Staff Report, the Commission staff recommended that there be substantial reductions in the Commission's accounting requirements. In the NPRM, the Commission admits that in considering USTA's request to use Class B accounts for all carriers, it has found many instances where Class B accounting would appear to meet the Commission's data needs and it agrees that fewer prescribed accounts would reduce regulatory burdens. In fact, by adopting Class B accounting, the Commission can reduce the number of accounts from 261 to 109, the number of subaccounts from twelve to five and eliminate all subsidiary records. Oddly,

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[2] In fact, Part 64 cost allocation rules, Section 64.901 through 64.904 do not detail individual Part 32 accounts and do not specify the cost pools that should be used.
[3] *Id.*
[4] Letter from Carl R. Geppert, Anthur Andersen, Supplement to July 15, 1998 Position Paper, "Accounting Simplification in the Telecommunications Industry," CC Docket Nos. 98-81, 98-117, 96-150 and ASD File No. 98-64, November 10, 1998.

however, the Commission only proposes to eliminate seventy-seven current Class A accounts. Certainly none of these accounts is necessary and they should be eliminated. While this is a beneficial, albeit minor, change, its incremental nature will not provide significant regulatory relief. These changes should have been adopted in Phase 1. In Phase 2, the Commission stated it would address long term changes needed as local exchange markets become competitive. Phase 2 relief should include, at a minimum, the adoption of Class B accounting for all carriers and the beginning of the transition to GAAP accounting.

The Commission seeks comment on whether using Class B accounts would provide sufficient information for its purposes and observes that state regulators claim to use Class A accounts for comparative purposes. USTA has repeatedly explained that Class A accounts are not required for any regulatory purpose. As mentioned above, Class B accounts are currently used in the Part 36 separations process, thus Class A accounting is not required for jurisdictional separations.

Class A account balances are not required for universal service purposes. The Rural Task Force has recommended that the nationwide average loop cost be frozen based on 1998 data and that the new indexed high cost fund be calculated based on a Rural Growth Factor or the sum of the annual percentage change in Gross Domestic Product-Chained Price Index plus the percentage change in loop count for rural carriers.[5] This cap would be recalculated by taking the total loop cost expense adjustment for the immediately preceding calendar year times one plus the Rural Growth Factor. Class A accounts are not required to perform these calculations. The Commission observes that Class B combines all switching technologies into one account and that there may be a continuing need for network plant and related accounts at the Class A level for

[5] Federal-State Joint Board on Universal Service, *Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, rel. Sept. 29, 2000.

the nonrural universal service cost proxy model. The vast majority of switching assets of most of the carriers subject to Class A accounts are digital. Thus, there would be no distortion in the data for the proxy model if Class B accounts were utilized. However, should the Commission determine that distinguishing switches by technology is required, carriers could develop side records to provide the information.

Class A accounts are not required for pricing. As mentioned above, access prices are not set using individual Class A account balances and such balances are not used to calculate exogenous adjustments. Thus, Class A accounts are not required for pricing under price cap regulation. Pricing of interconnection agreements are determined by the parties to the agreements. State regulators can arbitrate pricing disagreements and have the authority to establish pricing if the parties cannot reach agreement so long as the state-mandated prices are consistent with Federal pricing policy. The states are not required to use Class A accounts to make such determinations and do not use Class A accounts in arbitrating the interconnection agreements of Class B carriers. Likewise, state access revenues can be identified using subsidiary records, just as the current Class B carriers identify such revenues.

There are no reasons not to adopt Class B accounts for all carriers. Class A account balances are not required to provide information at either the federal or state level. Certainly the Commission should not retain Class A accounts merely because state regulators find them to be convenient.

B. The Commission Should Eliminate the SubAccounts and the Jurisdictional Difference Main Accounts Recommended by USTA.

Incumbents should not be forced to maintain subaccounts or subsidiary records that are not required for business purposes and are solely for the benefit of regulators. Incumbents should have the flexibility to maintain accounts that serve a business purpose. Therefore, USTA recommends the elimination of the following subaccounts: 1220.1, 1220.2, 1406.1, 1406.2, 1406.3, 2123.1, 2123.2, 2215.1, 2215.2, 2215.3, 2231.1 and 2231.2.[6] These subaccounts provide a level of detail that is not required and, in some instances is woefully out of date. For example, Account 2215, Electro-mechanical Switching requires separating step-by-step, crossbar and other switches. This information is not relevant in a digital environment.

USTA also recommends that the Commission eliminate the Jurisdictional Difference Main accounts, 1500, 4370, and 7910. These accounts do not contain Part 32 amounts and are not used for Federal regulatory oversight. The information contained in these accounts is already provided to state regulators, often in greater detail than what is recorded in these accounts. Since there is no Federal regulatory purpose for maintaining these accounts, they should be eliminated from Part 32.

C. Additional Accounts Proposed by Several State Regulators Must be Rejected.

Several state regulators have suggested adding twelve new main accounts and from 21 to 29 new subaccounts to track information, although no justification for these new accounts is provided. These additional accounts are not justified and must be rejected. As discussed above, it does not make sense to consider new regulation in a Section 11 biennial review proceeding since new regulation is contrary to the purpose of Section 11. Section 11 requires the Commission to identify existing rules that no longer serve the public interest and either modify or eliminate them. Further, without an explanation as to what information these states are requesting and whether all states need this information, it is impossible to contemplate alternate sources that would be less burdensome. Given that these suggestions would result in increased regulation, increased costs and less streamlining for all incumbent LECs, it would be preferable

[6] Subaccounts, 2123.1, 2123.2, 2215.1, 2215.2, 2215.3, 2131.1 and 2231.2 are Class A subaccounts and will be eliminated if the Commission adopts Class B accounts. The remaining subaccounts listed and the Jurisdictional

to permit carriers to work with their individual state commissions to determine how best to provide whatever information the states are requesting. Certainly the Commission does not intend to increase regulation for all LECs every time a state wants a new account to meet some perceived need that may be a one-time only event. Some of the states have suggested adding the following new accounts:

-Add subaccounts to the digital electronic switching account for packet and ATM switches. The addition of this level of accounting detail is unnecessary and obviously not consistent with the mandate of Section 11. However, in most Class A companies, the identification of packet switches and ATM switches may be available in subsidiary records. This information is not necessary for external reporting purposes. For companies that do not currently separately identify such switches, imposing such a requirement would create an administrative burden and add associated costs.

-Add a subaccount to the intangible asset account for switching software. This proposal simply adds unnecessary detail that is not required for external reporting. Further, there is no regulatory benefit gained in reporting intangible software separately from all other intangibles.

-Add subaccounts to central office transmission, cable and wire facilities and information origination/termination accounts for loop and interoffice transport. This proposal adds unnecessary detail. It would be impractical to account separately for loop and interoffice transport in cable and wire facilities since both are normally carried on the same cable facility. It would be extremely costly to separate and maintain separate records. Further, this proposal is contrary to the purpose of Part 32. Cost allocations are not reflected in Part 32.[7] The addition of

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Difference Main Accounts are Class B accounts that should be eliminated in Phase 2.

[7] Section 32.2(c) of the Commission's rules states that "It was, for example, determined that, because of the variety and continual changing of various cost allocation mechanisms, the financial accounts of a company should not

these subaccounts would provide no regulatory benefit for ratemaking or regulatory control purposes.

-Add a subaccount to the end user revenue account for subscriber line charges. There is simply no need to establish a new account for revenues that have been in existence and tracked since 1984.

-Add subaccounts to the switched access revenue account for access revenue received from calls originating and terminating from the carrier's network. Requiring that these revenues be accounted for separately would require major billing system modifications. The increased administrative burden does not outweigh any conceivable regulatory benefit.

-Add subaccounts to the state access revenue account for switched access, special access and subscriber line charges. The states do not have identical access and subscriber line requirements. Such a requirement would impose a new, substantial administrative burden on incumbents that may only provide relevant information in a few states. There is no valid reason to expand the state access revenue account.

-Add subaccounts to customer operations expense for wholesale and retail. This requirement would result in four new subaccounts for Class B carriers and twelve new subaccounts for Class A carriers. The creation of new Part 32 accounts is contrary to the objective of this proceeding. This suggestion is not even consistent with the current Part 32 rules as articulated in Section 32.2(c). Such a requirement is unnecessary. If certain state regulators require this information, they should request it from the LEC.

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reflect an *a priori* allocation of revenues, investments or expenses to products or services, jurisdictions or organizational structures."

-Add subaccounts to deferred operating income taxes for Federal and State and Local. This information is currently maintained and made available using subsidiary records. This level of tax detail is not required and there is no need to create new accounts in order to provide it.

-Add new revenue and expense accounts for reciprocal compensation, Federal universal service fund support, state universal service fund support, resale, wholesale and collocation. New accounts are not needed for any of these items. There is no practical benefit to be derived from separating reciprocal compensation revenues. Reciprocal compensation has long been offered in state tariffs and does not represent a new revenue stream. Reciprocal compensation expenses can be reflected in Account 6540. The Commission has already addressed Federal and state universal service support in RAO Letter 27 issued June 27, 1998. No new, separate accounts are required. Existing Part 32 accounts are sufficient to track resale and wholesale revenues and expenses. Likewise, existing Part 32 accounts are sufficient to account for collocation expenses and revenues. The Commission need not establish new accounts in Part 32.

D. Other Regulatory Relief Proposed by USTA Should be Adopted in Phase 2.

Included in the NPRM are several other regulatory reform proposals USTA has proposed in the past. The following proposals should be included in Phase 2 relief:

-Inventories. USTA proposed that GAAP be the basis for performing inventories required under Sections 32.1220(h) and 32.2311(f) of the Commission's rules in lieu of the detailed requirements contained in those rules. These inventories are primarily of materials and supplies used in the construction or repair of telephone plant and have no bearing on the balance sheets of the companies. The level of risk associated with these inventories is minimal. GAAP, GAAS and the Foreign Corrupt Practices Act provide adequate guidance to balance the cost of controls and the reduced risks associated with managing and accounting for material and supplies used in construction or held for resale. The specific inventory guidelines should be developed by individual LECs based on their business needs and established internal controls.

-Charges to Plant Accounts. As explained in the NPRM, the arbitrary thresholds that determine whether carriers can record short-term and small-cost constructions projects directly to plant accounts without first recording in the construction Work-in-Progress accounts serve neither a business nor a regulatory purpose. Incumbent LECs should be permitted to determine what projects should be accounted for as under construction using GAAP.

-Contributions. The Commission should adopt SFAS 116 in order to bring its accounting rules in line with GAAP. This would permit contribution costs to be recognized when pledges are made rather than when contributions are paid.

-Section 32.5280(c) Subsidiary Record Requirement. Account 5280 is used to record nonregulated revenue. LECs should not be required to maintain separate subsidiary records for nonregulated revenues.

-Deferred Tax Accounting. The Commission should simplify the deferred tax accounting entries by allowing carriers to book the Account 1437 Deferred Tax Regulatory Asset net of Account 4361, Deferred Tax Regulatory Liability and eliminate the requirement to calculate the gross amounts of each. The level of detail required in this account far exceeds GAAP requirements and is extremely burdensome. Only a net deferred tax regulatory asset or liability need be reported.

-Property Record Additions, Retirements and Recordkeeping. The Commission should eliminate the detailed instructions for Telecommunications Plant accounts in Section 32.2000 and replace them with guidelines that rely on GAAP internal controls. The current level of detail is unnecessary and serves no business purpose. Specifically, the Commission should eliminate the "how to" descriptions for each account, eliminate the requirement to file retirement unit lists, eliminate Section 32.2000(g)(4) and (5), and allow use of GAAP internal controls. GAAP requires that companies have the detail necessary to support the assets on the books. Business needs will ensure that property is maintained and controlled properly. Maintaining the level of detail prescribed in this section is costly and burdensome. This unnecessary level of detail, particularly for Property Records, has no relationship to the prices charged for services in today's environment. Certainly the internal controls of the SEC-required annual financial audit, the Foreign Corrupt Practices Act and GAAP provide sufficient safeguards. The additional layer of regulation in Section 32.2000 is unnecessary. Arthur Andersen estimated that incumbents spent an average of over $9 million a year to comply with Section 32.2000, while unregulated industries spent only about $2 million a year to manage fixed assets.[8] These detailed requirements are not cost effective and must be eliminated.

-Notification and Approval to Implement New FASB Accounting Standards. The Commission should eliminate the Section 32.16 requirement for notification and prior approval to adopt FASB standards. Incumbent LECs should be permitted to simply adopt new FASB standards, just as other companies do, without performing a costly revenue requirement study. The FASB process is open to the public and changes in FASB standards are subject to public debate and evaluation. Incumbent LECs already provide notification of FASB changes on both the SEC Form 10-K and the ARMIS Report 43-02.

-Section 252(e) Agreements. The Commission should clarify that agreements under Section 252(e) are treated the same as tariffed services in the Part 64 cost allocation rules. In CC Docket No. 96-150, the Commission modified the affiliate transaction rules to treat Section

[8] Ex Parte Letter of July 15, 1998.

252(e) agreements the same as tariffed services.[9] The Commission should clarify that Section 64.901(b)(1) includes Section 252(e) agreements as well as tariffed services.

-CAM Product/Service Matrix. In its June 9 letter, as well as in its biennial review petitions, USTA has proposed that the Commission eliminate the product/service matrix in Section II of the CAM. This is an unnecessarily detailed requirement that adds to the cost and burden of preparing the CAM.

E. Relief from the Affiliate Transactions Rules Must be Included in Phase 2.

USTA has included many proposals to streamline the Part 32 Affiliate Transactions rules in its biennial review petitions. The Commission should immediately revise Section 32.27(d) of its rules to decrease the threshold to use prevailing market price in valuing affiliate transactions from fifty percent to twenty-five percent. The current rules severely restrict the use of the market-based prevailing price technique. A prevailing price can only be utilized when there are a substantial amount of sales to unaffiliated third parties that represent over fifty percent of the sales of the product or service. The arbitrary fifty percent threshold effectively eliminates the opportunity to use prevailing price.

Determining whether the current high threshold can be met on a product by product or service by service basis is administratively onerous as incumbent LECs and their nonregulated affiliates are forced to track individual products and prices and perform an estimated fair market value calculation and a fully distributed cost calculation for each. Fair market value studies are expensive and time consuming for both the incumbent LEC and the nonregulated affiliates. It is

[9] Section 32.27(c) states that services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue account at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements.

not necessary to meet such a high threshold in order to determine a reasonable transfer value for a product or service. Reducing the threshold would also lessen the volatility that currently exists. For example, a particular product may meet the threshold one-year, may barely miss the threshold the following year and may again qualify in the subsequent year. Clearly, such a product is commercially viable, but due to the arbitrarily high threshold, incumbent LECs are forced to incur the costs of tracking the EFMV and FDC for such a product.

As competition continues to increase, the use of market prices to value transactions should also increase. A lower threshold would be consistent with a more competitive environment. The use of prevailing market price reflects the efficiencies of the marketplace. Market prices have to be efficient, available and fair because they represent the price at which bona fide sales have been consummated for a particular product or service in the market. Unnecessary or inefficient prices do not survive in the market. The availability of market information for validation purposes is readily available from evidence of actual sales to consumers.

The percentage of external sales of a product or service has little if any bearing on the establishment of a market price. The market price reflects the price consumers are willing to pay for a product or service. USTA strongly urges the Commission to lower the threshold from fifty percent to twenty-five percent to allow more transactions to qualify for market price treatment.

Further, the Commission should expand the exception to the EFMV rule to include all centralized services regardless of who provides the centralized service. The Commission has long recognized the benefit of shared administrative service efficiencies. It has observed that assurance of just and reasonable rates does not stop with assuring that regulated operations do not cross-subsidize nonregulated activities, but that if there are savings to be gained from the integration of regulated and nonregulated ventures, those savings must be shared equitably with ratepayers.[10] However, the benefits of shared administrative services are restricted by the Commission's requirement to compare each service to EFMV. The additional cost of performing the EFMV calculation for each individual service simply adds administrative costs and restricts the opportunity to utilize shared efficiencies for consumers.

Section 32.27(c) only allows for cost based pricing for centralized services if solely provided to members of the corporate family. This is applied to the legal entity, not by service. This arbitrarily excludes centralized services that are solely provided to members of the corporate family simply because the service was not located in an administrative affiliate. In order to allow all centralized services to benefit from the economies as envisioned by the Commission, the rule should be revised as follows. "All services provided by a carrier or its affiliate(s) where the service is provided solely to members of the carrier's corporate family shall be recorded at fully distributed cost..."

The Commission requests comment on other proposals to streamline the affiliate transactions rules. USTA supports these proposals as discussed below.

-Eliminate Requirement for Fair Market Value Comparison for Asset Transfers Under $500,000. USTA recommends that a threshold be established for asset transfers under which the EFMV appraisal would no longer be necessary and the transfer could be conducted at net book value. While the Commission proposes that the threshold be set at $500,000, USTA recommends that the threshold provide some material benefit and apply to all asset transfers. Further, the Commission should recognize that competitors are permitted to transfer affiliate assets at net book cost. Therefore, USTA suggests that the threshold be set at $1 million per year between the LEC and each individual affiliate. The $1 million threshold would be applied

[10] Joint Cost Order, CC Docket No. 86-111 at ¶ 39.

separately for sales and separately for purchases. It would also be applied separately by each nonregulated affiliate.[11] A threshold of $1 million is appropriate for assets because the value of assets on a carrier's Balance Sheet is generally larger than the value of the expenses for services that appear on a carrier's Income Statement.[12] Such a threshold would continue to require EFMV calculations for significant transfers and would continue to provide adequate protection against any possibility of asset value manipulation or cost shifts.

-Establish a Ceiling and Floor for Recording Transactions. Incumbent LECs should be permitted to use 'less than FDC' or 'at no charge' for comparative purposes when the affiliate transaction rules require a comparison with EFMV for booking a transaction when the LEC purchases a product or service from a nonregulated affiliate. Under such a proposal, the lower of EFMV or FDC would continue to be the maximum booked amount and the ratepayer would continue to benefit from the lower amounts booked for services provided by the nonregulated affiliate. This proposal is consistent with prior Commission decisions. "Recording certain services received from affiliates at 'no charge' and 'less than fully distributed costs' appears to benefit ratepayers by enabling the incumbent LEC to obtain services in a cost-effective manner."[13] Allowing carriers to book transactions with nonregulated affiliates at an amount below the regulatory ceiling is in the public interest. Further, the Commission's rules require that products or services provided to nonregulated affiliates by the incumbent LEC be booked at

[11] For example, In a given year assume the following asset transfers take place: the LEC sells seven assets to three affiliates. Affiliate A purchases assets with a LEC net book amount of $200,000, $500,000 and $100,000. No EFMV test would be required. Affiliate B purchases assets with a LEC net book amount of $600,000 and $500,000. The second asset of $500,000 sold brings the total amount over the $1 million threshold. That asset would be subject to EFMV. Affiliate C purchases assets with a LEC net book of $1,100,000 and $1,500,000. Both assets require estimated fair market value calculations. LEC purchases from an affiliate would be looked at the same way. Affiliate A sells an asset with an affiliate net book amount of $400,000. That asset would not require and EFMV. Similarly, Affiliate B sells assets to the LEC, one with an affiliate net book amount of $700,000 and another with an affiliate net book amount of $800,000. The second asset of $800,000 brings the total over the $1 million threshold and would require an EFMV.

the higher of EFMV or FDC when the market rate test is not met and there is no tariff rate. Just as booking incoming transactions at an amount under the "ceiling" is in the public interest, so would booking transactions at an amount above the "floor" be in the public interest.

-Exempt Nonregulated to Nonregulated Transactions From Affiliate Transactions Rules. USTA agrees with the Commission's proposal that the affiliate transaction rules should not apply to nonregulated services sold or assets transferred from the nonregulated operations of the incumbent LEC to the nonregulated affiliate. An asset used exclusively in the LEC's nonregulated business has already been assigned to nonregulated in Part 64. Revenue received from the sale of a nonregulated service to a nonregulated affiliate is directly assigned to nonregulated revenue. The regulated business bears no risk in the transfer of a dedicated nonregulated asset to a nonregulated affiliate or in the sale of a nonregulated service to a nonregulated affiliate. Further, the affiliate transactions should not apply to nonregulated services or assets transferred from the nonregulated affiliate to the nonregulated business of the LEC, especially those purchases that are directly assigned to nonregulated. The application of the Part 32 affiliate transaction rules in addition to the Part 64 cost allocation rules creates an unnecessary regulatory burden while yielding no additional benefit to the regulated business.

F. The Commission Should Ease the Restrictions on Incidental Activities.

USTA supports the Commission's proposal to allow updates under Section 32.4999(l) for minor nontariffed activities treated as regulated incidental activities by eliminating the criteria that activities have been treated traditionally as regulated. All incidental activities should be afforded regulatory accounting treatment regardless of when the activity was initially provided. The classification of an activity as incidental should be based upon the nature of the service, not

[12] Using 1999 ARMIS 43-02 data, total assets were $203.6 billion, while total operating expenses were $71.6 billion.

the time it was introduced. This would allow services that are an outgrowth of regulated operations, that are not a line of business and that meet the Commission's de minimis test in Section 32.4999(f) to be classified as incidental by all incumbent LECs.[14] The Commission could retain the current one percent revenue ceiling. Any new services that are accounted for as incidental would add to existing incidental services and if the one percent limit is reached, services would be reclassified as nonregulated operations until the pool of incidental services no longer exceeds the Commission's limit.

G. The Expense Limit Should be Increased for All Investment on a Prospective Basis.

USTA supports the Commission's proposal to allow incumbent LECs to expense up to $2,000 for all investment. This would ensure that costs above the $2,000 ceiling are capitalized while providing some flexibility for LECs to decide whether to capitalize or expense costs below the ceiling. This modification would not result in any material shift in expensing equipment. It would provide a consistent rule applicable to all assets. This flexibility should be implemented on a prospective basis rather than by identifying the embedded equipment costs and amortizing those costs over a estimated short useful life. The difference in the amount of depreciation computed under the former method will not be materially different from the latter, but will be administratively less burdensome. Many individual units, such as line cards, shelves, poles or pedestals, have an individual cost of less than $2,000. However, these units can either become overheads to a continuing property unit, as in the case of a pedestal where the cost can be added as an overhead to buried plant, or an integral part of a larger, more expensive system or continuing property unit as in the case of central office line cards that are combined into a larger,

[13] AAD 93-80, rel. Jan. 24, 2000 and ASD 00-42 rel. Oct. 27, 2000.

functional unit. The Commission should not require all LECs to separately identify and remove these embedded costs for amortization, as it would be difficult and costly to accomplish.

H. All Carriers Should Allocate Part 64 Costs on a Class B Level.

All incumbent LECs should have the option to allocate Part 64 costs at a Class B level following the methods currently prescribed for the midsize carriers. This would eliminate much unneeded detail and provide opportunities to streamline cost study development, system processing and audit review. Providing this option is in the public interest. Part 64 cost allocation requires the use of cost pools within an account, so LECs will continue to maintain sufficient detail to ensure the proper allocation of common costs. LECs will continue to be able to directly assign costs that were previously directly assigned. The only difference will be that costs that were once assigned to multiple pools could be combined and consolidated into a Class B pool. The fundamental allocation formulae used to allocate common costs will not change, however the allocation could occur at a higher level. It is unlikely that this option will produce material distortions as many mid-sized LECs adopted the Class B methodology without experiencing material changes in allocated amounts. The benefits of this option would be even greater if both Parts 32 and 64 were based on Class B accounts.

I. Cost Allocation Forecasts Should be Eliminated.

The requirement to forecast shared network investment in central office and outside plant accounts in Section 64.901(b)(4) should be eliminated. UNE prices are treated as tariffed services under the Part 32 affiliate transactions rules. In addition, LECs should be allowed to allocate the costs of the small amount of common central office and outside plant investment on the basis of actual usage. This would increase the accuracy of cost assignments and eliminate

[14] Services that could qualify as incidental services include training activities, software, licensing, consulting and administrative services and equipment reclamation. Some LECs are currently permitted to classify these as

any possible need for three-year peak usage forecasts. The three-year peak usage forecast is an anachronism that serves little if any purpose in the current environment, where the largest carriers are under incentive regulation and the market is open to competition. The forecast is a costly burden that provides little if any benefit. The vast majority of this investment is directly assigned, so the amount of common investment is small. Eliminating this requirement would provide for more effective competition for the sale of nonregulated services.

III. ARMIS REPORTING REQUIREMENTS SHOULD BE SIGNIFICANTLY REDUCED IN PHASE 2.

The ARMIS reports have outlived their usefulness. The reports are unnecessarily detailed and the information collected is not required to meet the statutory obligations of the Telecommunications Act of 1996. USTA has provided the Commission with many recommendations to streamline the ARMIS reports and will reiterate them below. It would seem that the Commission could employ less burdensome and expensive alternatives to collect necessary data. For example, the tariff process provides the Commission with the information needed to ensure that rates are just and reasonable. The SEC Form 10-K and annual shareholder reports can be utilized for the relevant financial information. Specific or one time needs can be handled on a case by case basis. Significant reform is necessary to begin the transition to eliminating these reports in Phase 3 and replacing them with a report that more closely resembles the 10-K. Regrettably, the Commission's proposals are insignificant and unnecessarily complicated as will be discussed below.

A. ARMIS Reports 43-01, 43-02, 43-03, 43-04 Should be Consolidated into One Report.

USTA continues to recommend the consolidation of the ARMIS reports 43-01, 43-02 (Schedules B1 and 11), 43-03 and 43-04 into a single report at an operating telephone company

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incidental while others are not due to the timing of when the service was provided.

level as described in the June 9 letter. This step alone would reduce the number of pages to be filed from 191 to five. The consolidated report would contain four Tables: Statement of Income, Balance Sheet, Separations and Access and Statistical/Price Cap Basket Data.[15] The format would be consistent with the 43-01. The consolidated report would eliminate cash flow information which is already available from existing external reports, the demand data from Table 2 of the 43-01 which is already available in the Tariff Review Plans, streamline the 43-02 and eliminate the 495 A and B reports; reduce the Part 69 reporting categories currently contained in the 43-01 from sixteen to six and employ a Class B level of detail. This change alone would substantially reduce the volume and complexity of the current ARMIS financial reports and significantly minimize the reporting burden.

In addition, the nonregulated adjustment threshold for the separation of Part 64 costs should be modified from the $ 1 million impact on nonregulated operations at the holding company level to the greater of $ 1 million or two percent nonregulated expense. The current $ 1 million threshold for nonregulated operations was established in October 1990, and is no longer relevant, due to the changes in regulation that have occurred over the last decade.

The Commission proposes to mechanically generate Table 1 of the 43-01 and is "considering" eliminating Table 2, although it would move switched traffic sensitive demand minutes of use, common line demand billable access lines and total billable access lines to the 43-04. This proposal is hardly worth the effort, particularly if incumbent LECs would still be required to report the detailed data from which the table will be generated and to verify the Commission's results. This proposal provides no administrative relief. Likewise, eliminating Table 2, but generating the results elsewhere will not provide any relief. At a minimum, this

[15] If the separations freeze is adopted as recommended by the Federal State Joint Board, the Separations and Access table would no longer be necessary.

Table should be eliminated as the information it contains is available from NECA and the Table is duplicative.[16]

The Commission also proposes to mechanically generate Table I-1 of the 43-02 from other ARMIS reports. However, this would involve moving Investment in Non-Affiliated Companies, Deferred Tax Regulatory Asset, Net Deferred Tax Liability Adjustment, Deferred Tax Regulatory Liability, and Non-Operating Taxes to the 43-03. Again, this proposal is unnecessarily complicated and does not really provide any administrative relief.[17]

USTA supports combining the SNFA and Intra-Co. Adjustments column with the Adjustments column on the ARMIS 43-03. However, the Commission should do the same for the 43-01 report. Likewise, the Commission suggests eliminating the BFP column and collecting the data in the Total Common Line column on the 43-04. The Commission should do the same on the 43-01.

USTA opposes the Commission's proposal to require LECs to identify the cost and revenue associated with excluded services separately from the remainder of the access element data by either combining it with the Billing and Collection column or listing it in a separate column on the 43-04. Many LECs already footnote excluded revenues on the 492 Report. This information is not available by account. It would be burdensome and time consuming to provide this information.

If the Commission does not adopt USTA's proposal to consolidate these reports, the Commission should at the very least eliminate the 43-04. The Federal State Joint Board has

[16] In the alternative, the Commission could eliminate the section for Switched Traffic Sensitive Demand Minutes of Use that the Commission is proposing to move to the 43-04. This data is duplicative of data already provided to and available from NECA. The Billable Access Lines probably should be retained on the 43-01.

[17] If the Commission pursues this proposal, USTA would suggest that the Commission not move the above-listed sections to the 43-03, but instead include them in the 43-02. This would reduce the amount of programming that would be required to move them.

recommended and USTA strongly supports a freeze of separation allocation ratios and categorization relationships. Thus, the 43-04 is no longer required. Relative use factors, fixed allocators and direct assignment can be derived from the ARMIS 43-01, the Broadband Competitive Analysis Form 477 and the NECA Network Usage Report.

The Commission's proposal to add reporting of Metallic and Nonmetallic cable investment and expense information should be rejected. As stated previously, Section 11 requires the elimination or streamlining of regulation. This proposal is not germane.

B. The ARMIS 43-07 and 43-08 Reports Should be Eliminated.

The ARMIS 43-07 and 43-08 reports have outlived their usefulness and should be eliminated. With increased competition and alternative networks providing telecommunications services, the 43-07 is irrelevant and no longer serves a useful purpose. It would be more cost effective and efficient to use data requests should any of this information ever be needed in the future. Likewise, while access line counts are already provided in Table II of ARMIS 43-01, the other information collected in 43-08 could be obtained on an as-needed basis. Continuing to require that a small subset of providers collect and submit this data is meaningless in a competitive market and does not provide a realistic reflection of the status of new network development. The Broadband Competitive Analysis Form should substitute for both of these reports as it at least includes information from other network providers. Further, competition will ensure that all providers maintain and upgrade their networks in order to attract customers. Reporting requirements do not further competition, but will impede competition particularly when imposed on only one group of competitors.

If the Commission does not eliminate both reports, USTA recommends that the Commission, at a minimum, eliminate the 43-07 and eliminate columns d through o of Table I, and Table II, III and IV of the 43-08. Much of this information is available elsewhere. For example, the information in Table IV of the 43-07 is available on the 43-01. The rest of this information is obsolete. For example, the definitions for the 43-08, Table III are becoming more ambiguous as the public switched network evolves toward a data platform. In a high bandwidth network, the concept of DS0 equivalents is no longer viable. Reporting data for these Tables is time consuming and of questionable relevance.

In no instance should the Commission add to either of these Reports. The 43-07 should not be modified to include reporting of ATM, SMDS, Internet routers, frame relay or any competitive services or facilities. This information should be collected from all such providers through the Broadband Competitive Analysis Form. It would be extremely burdensome to require LECs to report by MSA and nonMSA on Table II of the 43-07, as distinguishing between urban and rural transmission facilities is difficult. Sheath Kilometers in Table 1 of the 43-07 should not be changed to Loop Sheath Kilometers since the majority of LECs do not have the ability to collect these data solely for loop plant. The relevant measure should be the number of access lines already reported on the 43-01. The Broadband Competitive Analysis Form already includes information on optical carrier fiber to the end user by state. There is no need to duplicate this reporting requirement by adding it to the 43-07.

The Broadband Competitive Analysis Form is a more relevant source of information and should be utilized in lieu of these Reports. The form includes information on new services and where new services are sold. Since information is requested from other carriers in addition to the LECs, it provides a much more realistic reflection of the current telecommunications market. The 43-07 and 43-08 are obsolete and should be eliminated in their entirety. The Commission's attempts to tweak these reports by adding requirements will not validate them, but will only add duplicative reporting burdens.

IV. MID-SIZED CLASS A CARRIERS SHOULD BE TREATED AS CLASS B CARRIERS.

All mid-sized LECs should be treated as Class B carriers to further reduce the administrative burdens on these carriers. All mid-size LECs should be relieved of all requirements to file a CAM, conduct CAM audits and file ARMIS reports. The Commission has already found that mid-sized LECs qualify for reduced regulation based on the different needs and circumstances of these carriers. The Commission's prior decision in Phase 1 provides the rationale for additional regulatory relief in Phase 2.

The Commission seeks comment on whether its definition of mid-sized incumbent LEC should be reexamined. As explained above, all LECs should be allowed to use Class B accounts. If the Commission does not adopt Class B accounts for all carriers, it should simply declare that all current mid-size Class A carriers should be treated as the current mid-size Class B carriers. There is no justification for different regulatory treatment. If the Commission continues to employ a revenue threshold, it should be set at a level to include all current Class A mid size LECs in order to allow them to use Class B accounts and should be indexed to allow growth without increasing regulation which cannot be justified.

V. CONCLUSION.

The Commission must provide meaningful relief from the current accounting and reporting requirements. These requirements have remained static as the telecommunications industry has changed dramatically. These requirements are an artifact of legacy regulation that no longer exists. Incumbent LECs have no use for these requirements as they do not serve any business purpose. These requirements are solely regulators' tools that have not kept pace with changes in regulation. The Commission should adopt the changes recommended herein to provide some meaningful reform in Phase 2 and begin the transition to the elimination of these requirements in Phase 3.

Respectfully submitted,

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